

**NORTH DICKINSON COUNTY**  
**SCHOOL DISTRICT**

**REPORT ON FINANCIAL STATEMENTS**  
**(with additional information)**

For the Year Ended June 30, 2008

# NORTH DICKINSON COUNTY SCHOOL DISTRICT

## TABLE OF CONTENTS

	<u>Page</u>
Independent Auditors' Report .....	3-4
Management's Discussion and Analysis .....	5-13
Basic Financial Statements	
District – Wide Financial Statements	
Statement of Net Assets .....	14
Statement of Activities .....	15
Fund Financial Statements	
Balance Sheet – Governmental Funds .....	16
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets .....	17
Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Funds .....	18
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities .....	19
Fiduciary Fund	
Statement of Fiduciary Net Assets .....	20
Notes to Financial Statements .....	21-34
Required Supplemental Information	
Budgetary Comparison Schedule – General Fund .....	36
Other Supplemental Information	
Combining Balance Sheet – Nonmajor Governmental Funds .....	38
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds .....	39
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> .....	40-41
Schedule of Findings and Responses .....	42-46





**ANDERSON, TACKMAN & COMPANY, P.L.C.**  
CERTIFIED PUBLIC ACCOUNTANTS

*Independent Financial Officers in Michigan and Wisconsin*

Principal: Ron Kouchner  
David J. Johnson, CPA  
Shawn M. Eisner, CPA

Member of:  
Private Companies Practice Section  
American Institute of Certified  
Public Accountants

INDEPENDENT AUDITORS' REPORT

To the Board of Education  
North Dickinson County School District  
Felch, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the North Dickinson County School District ("District") as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's Board of Education and management. Our responsibility is to express an opinion on these financial statements based on our audit.

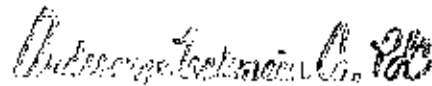
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the District's Board of Education and management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the North Dickinson County School District as of June 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 22, 2008, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and the required supplemental information identified in the table of contents are not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying combining and individual nonmajor fund financial statements are presented for purposes of additional analysis, and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.



ANDERSON, TACKMAN & COMPANY, P.L.C.  
Certified Public Accountants

Iron Mountain, Michigan  
October 22, 2008

North Dickinson County School District  
Management Discussion and Analysis  
(Unaudited)  
For the Fiscal Year Ended June 30, 2008

North Dickinson County School District's Management Discussion and Analysis is intended to assist the reader to focus on significant financial issues, provide an overview of the District's financial activity, and identify changes in the District's financial position including its ability to address the next and subsequent years' challenges. It also identifies any material deviations from the financial plan and identifies individual fund issues or concerns. This is a requirement of the Governmental Accounting Standards Board Statement No. 34 (GASB 34) "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments" and is intended to provide the financial results for the fiscal year ending June 30, 2008.

***Management's Discussion and Analysis (MD&A)***  
(Required Supplemental Information)

Basic Financial Statements

***District-Wide Financial Statements***

***Fund Financial Statements***

Notes to the Basic Financial Statements

***(Required Supplemental Information)***  
(other than MD&A expanded)

As mentioned, GASB 34 requires the presentation of two basic types of financial statements: District-Wide Financial Statements and Fund Financial Statements.

**District-Wide Financial Statements**

The District-Wide Financial Statements provide a perspective of the District as a whole. These financial statements use the full accrual basis of accounting similar to private sector companies. There are two District-Wide Financial Statements: the Statement of Net Assets and the Statement of Activities.

The Statement of Net Assets combines and consolidates governmental funds: current financial resources (short-term available resources) with capital assets and long-term obligations, regardless of their current availability.

Consistent with the full accrual basis method of accounting, the Statement of Activities accounts for current year revenues and expenses regardless of when cash is received or paid. The intent of this statement is to summarize and simplify the user's analysis of the costs of various District services.

North Dickinson County School District  
Management Discussion and Analysis  
(Unaudited)  
For the Fiscal Year Ended June 30, 2008

**Fund Financial Statements**

The Fund Financial Statements are similar to financial presentations of years past, but the new focus is on the District's Major Funds rather than fund types as in the past. The two Account Groups: General Fixed Assets and General Long-Term Debt are no longer reported. Consistent with previous years, the fund statements are reported using the modified accrual method of accounts. Under this basis of accounting, revenues are recorded when received, except when they are measurable and available and therefore represent resources that may be appropriated. Expenditures are accounted for in the period those goods and services are used in school programs. In addition, capital asset purchases are expensed and not recorded as an asset. Debt payments are recorded as expenditures in the current year, and future debt obligations are not recorded.

Fund types include the General Fund, School Service Fund, Debt Retirement Fund, Capital Projects Funds and Fiduciary Fund. The General Fund is used primarily to account for the general education requirements of the District. Its revenues are derived from property taxes, state and federal distributions and grants, and other intergovernmental revenues. The School Service Fund is comprised of Athletic Activities and Food Service. The Debt Retirement Fund is used to record the funding and payment of principal and interest on bonded debt. The Capital Projects Fund is used to account for financial resources to be used for the acquisition, construction, or improvements of major capital facilities. The Fiduciary Funds account for assets held by the District in a trustee capacity, or as an agent for various student groups and related activities.

North Dickinson County School District  
Management Discussion and Analysis  
(Unaudited)  
For the Fiscal Year Ended June 30, 2008

**Financial Analysis of the District as a Whole**

Summary of Net Assets

	<u>June 30, 2008</u>	<u>June 30, 2007</u>
<b>Assets:</b>		
Current assets	\$ 826,402	\$ 1,101,878
Net capital assets	4,156,525	<u>3,933,816</u>
<b>Total assets</b>	<u>4,982,927</u>	<u>5,035,694</u>
<b>Liabilities:</b>		
Current liabilities	639,559	669,003
Long term liabilities	<u>674,067</u>	<u>916,751</u>
<b>Total liabilities</b>	1,313,626	<u>1,585,754</u>
<b>Net Assets:</b>		
Invested in capital assets, net of related debt	3,289,049	2,841,518
Restricted for capital projects	11,498	232,398
Restricted for debt service	363,810	402,972
Unrestricted	<u>4,944</u>	<u>(26,948)</u>
<b>Total net assets</b>	3,669,301	<u>3,449,940</u>
<b>Total Net Assets and Liabilities</b>	\$ <u>4,982,927</u>	\$ <u>5,035,694</u>

The School District's net assets were \$3,669,301 at June 30, 2008, compared to \$3,449,940 at June 30, 2007. Total net assets can be separated into four categories: invested in capital assets, net of related debt, restricted assets for capital projects, restricted assets for debt service, and unrestricted assets.

Net capital assets are a combination of funds available for capital assets less accumulated depreciation and related debt. The original cost of capital assets was \$7,798,846 at June 30, 2008, and \$7,360,757 at June 30, 2007. The accumulated depreciation is the accumulation of depreciation expense since acquisition. In accordance with Generally Accepted Accounting Principles (GAAP), depreciation expense is recorded on the original cost of the asset, less any estimated salvage value, expensed over the estimated use life of the assets. Total accumulated depreciation was \$3,642,321 at June 30, 2008, and \$3,426,941 at June 30, 2007. Total debt related to capital assets was \$867,476 at June 30, 2008, and \$1,092,298 at June 30, 2007.

North Dickinson County School District  
Management Discussion and Analysis  
(Unaudited)  
For the Fiscal Year Ended June 30, 2008

Restricted assets for debt are funds, by their nature, restricted for use by laws or regulations by the State of Michigan. These funds totaled \$375,308 at June 30, 2008, compared to \$635,370 at June 30, 2007.

The remaining balance in unrestricted assets represents an excess balance of \$4,944 at June 30, 2008, and a deficit balance of \$(26,948) at June 30, 2007.

The results of this year's operations for the School District as a whole are reported in the Statement of Activities. A summary of the District-Wide results of operations for the years ended June 30, 2008 and June 30, 2007 is as follows:

	<u>June 30, 2008</u>	<u>June 30, 2007</u>
Program revenue		
Charges for services-local	\$ 105,745	\$ 114,084
Operating grants - federal state local	<u>249,282</u>	<u>246,508</u>
Total program revenue	<u>355,027</u>	<u>360,592</u>
General revenue		
Property taxes levied for general operations	1,401,323	1,256,102
Property taxes levied for debt service	184,653	277,340
State of Michigan aid, unrestricted	1,654,760	1,791,730
Other- federal, state and local	<u>85,283</u>	<u>80,480</u>
Total general revenue	<u>3,326,019</u>	<u>3,405,652</u>
Total revenue	<u>3,681,046</u>	<u>3,766,244</u>
Expenses		
Instruction	1,674,566	1,810,501
Support services	1,240,019	1,252,106
School service	293,197	277,758
Interest on long term debt	38,523	47,731
Depreciation (unallocated)	<u>215,380</u>	<u>206,327</u>
Total expenses	<u>3,461,685</u>	<u>3,594,423</u>
Increase in net assets	219,361	171,821
Net Assets July 1	<u>3,449,940</u>	<u>3,278,119</u>
Net Assets June 30	<u>\$ 3,669,301</u>	<u>\$ 3,449,940</u>



North Dickinson County School District  
Management Discussion and Analysis  
(Unaudited)  
For the Fiscal Year Ended June 30, 2008

**GOVERNMENTAL FUNDS FINANCIAL HIGHLIGHTS**

The overall condition of the governmental funds has increased during June 30, 2008 and 2007. In the General Fund, the excess of revenues over expenditures totaled \$8,862 during fiscal year June 30, 2008 and \$3,048 during fiscal year June 30, 2007. The primary factor that contributed to this was the controlling of expenditures.

**MAJOR GOVERNMENTAL FUNDS BUDGETING AND OPERATING HIGHLIGHTS**

The District's budgets are prepared according to Michigan law and are initially adopted prior to July 1 of each year, before student enrollment counts are known. Therefore, it is expected that there will be changes between the initial budget and subsequent budgets, as actual enrollments are known. The most significant fund budgeted is the General Fund operations. The General Fund operating budget was amended four times during fiscal year 2008.

**General Fund Operations**

In the General Fund operations, the actual revenue for fiscal year June 30, 2008 was \$3,078,588. This is above the original budget of \$3,018,356 and above the final budget of \$3,066,341 - a variance of .39%. The actual expenditures of the general fund for fiscal year June 30, 2008 operations were \$2,965,394. This is above the original budget of \$2,917,780 and above the final budget of \$2,954,838 - a variance of 0.36%.

The variances between the actual revenues and the original and final revenue budgets are due primarily to the following.

- Unexpected General Fund revenue

The variances between the actual expenditures and the original and final expenditure budgets are due primarily to the following.

- Various budget items not expended

North Dickinson County School District  
Management Discussion and Analysis  
(Unaudited)  
For the Fiscal Year Ended June 30, 2008

**GOVERNMENTAL FUND EXPENDITURES**

Below is a summary of the governmental fund expenditures and their percentages as they relate to total governmental funds:

	Total Expenditures June 30, 2008		Total Expenditures June 30, 2007	
		Percentage		Percentage
General Fund	\$ 2,965,394	75.44%	\$ 3,062,168	81.52%
Other Funds	965,223	24.56%	694,244	18.48%
Total Expenditures	<u>\$ 3,930,617</u>	<u>100.00%</u>	<u>\$ 3,756,412</u>	<u>100.00%</u>

**TOTAL REVENUES**

Below is a summary of the governmental fund revenues and their percentages as they relate to governmental funds.

	Total Revenue June 30, 2008		Total Revenue June 30, 2007	
		Percentage		Percentage
State of Michigan Aid unrestricted	\$ 1,654,760	44.95%	\$ 1,791,730	44.49%
Prop taxes general operation	1,435,721	39.00%	1,256,102	31.19%
Operating grants federal state local	249,282	6.77%	246,508	6.12%
Prop taxes debt retirement	150,255	4.08%	277,340	6.89%
Charges for services - local	105,745	2.87%	114,084	2.83%
Other federal, state and local	85,283	2.32%	341,096	8.47%
Total Revenues	<u>\$ 3,681,046</u>	<u>100.00%</u>	<u>\$ 4,026,860</u>	<u>100.00%</u>

North Dickinson County School District  
Management Discussion and Analysis  
(Unaudited)  
For the Fiscal Year Ended June 30, 2008

**Unrestricted State Aid**

The District is predominately funded by State Aid based on a blended count formula that the State of Michigan utilizes. State revenues to the District have decreased as a result of decreased enrollment from the previous three years. State aid membership was 382.49 for fiscal year June 30, 2008 and 387.97 for fiscal year June 30, 2007.

**Property Taxes**

The District levies 18.0 mills of property taxes on all Non-Homestead property located within the District for General Fund operations. The levy is assessed on the taxable value of the property. The increase in taxable value is limited to the lesser of the inflation rate of the prior year or 5%. When a property is sold, the taxable valuation of the sold property is readjusted to the State Equalized Value, which is approximately 50% of market value.

The District levied 1.5 mills of property taxes on all classes of property located within the District for bonded debt retirement. The levy is not subject to rollback provisions and is used to pay the principal and interest on bond obligations.

The District levied 2.0 mills of property taxes on all classes of property located within the District for sinking fund purchases of the District.

**Operating Grants Federal, State, and Local**

The primary sources are the Federal Title One Program, the State funded At Risk Program, and the Special Education Obligation funds required under the Headlee Amendment, State of Michigan legislation. Both Title One and At Risk Programs assist students who are deemed to be at risk in the instruction process. For the 2007-2008 fiscal year, the District has utilized \$79,346 and \$56,343 for the Title One and State At Risk Programs. For fiscal year 2008 the State, under the Headlee amendment, is obligated to remit to the District \$93,816.

**ENROLLMENT**

The District's 2007-2008 fall enrollment totaled 374. This is a decrease of 10 students from the previous year. North Dickinson County School District is located in Michigan's Upper Peninsula. The area is currently experiencing an economic downturn. Some employers in the area have closed their doors, with others reducing their labor force. As a result of this, families have moved out of the area. In addition the county is experiencing a declining birth rate from previous year.

North Dickinson County School District  
Management Discussion and Analysis  
(Unaudited)  
For the Fiscal Year Ended June 30, 2008

Enrollment changes over the last ten years can be illustrated as follows:

<u>Fiscal Year</u>	<u>Student Enrollment</u>	<u>(Decrease) in Student Enrollment</u>
2008	374	(10)
2007	384	3
2006	381	(9)
2005	390	(18)
2004	408	0
2003	408	(2)
2002	410	(15)
2001	425	(28)
2000	453	(11)
1999	464	(18)
1998	482	

Student enrollment is important to the financial health of the District because state funding is based on a per pupil formula.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

At the end of the fiscal year 2008, the District had \$7,798,846 invested in land and building, furniture and equipment, vehicles and buses compared to \$7,360,757 at June 30, 2007. Of this amount, \$3,642,321 and \$3,426,941 has been depreciated at June 30, 2008 and June 30, 2007 respectively. Net book value totaled \$4,137,826 at June 30, 2008, and \$3,933,816 at June 30, 2007. Due to budget constraints related to declining enrollment and the State of Michigan financial status, the ability to maintain these buildings is becoming increasingly difficult. The District maintains a \$1,000 threshold for capitalization of assets.

North Dickinson County School District  
Management Discussion and Analysis  
(Unaudited)  
For the Fiscal Year Ended June 30, 2008

**Outstanding Debt at Year End**

As of June 30, 2008 the District had \$827,065 in bonds outstanding, compared to \$1,012,065 at June 30, 2007. The District collects bonded debt across the total property values. Therefore, total growth in valuation is an important element in determining the District's ability to retire bonded debt and/or to incur additional bond debt.

For more detailed information regarding capital assets and debt administration, please review the Notes to the Basic Financial Statements located in the financial section of this report.

**CONTACTING THE SCHOOL DISTRICT'S FINANCIAL MANAGEMENT**

This report is designed to give an overview of the financial conditions of the North Dickinson County School District. For additional detailed financial information contact:

Mike Roell  
Business Manager  
North Dickinson County School District  
W6588 M-69  
Felch, MI 49831  
Office Telephone (906) 542-9281  
Fax Telephone (906) 542-6950

**NORTH DICKINSON COUNTY SCHOOL DISTRICT**

**STATEMENT OF NET ASSETS**

June 30, 2008

	Governmental Activities
<b>ASSETS:</b>	
Current assets:	
Cash and equivalents	\$ 117,935
Investments	392,846
Inventory	4,085
Due from other governments	<u>311,536</u>
Total current assets	<u>826,402</u>
Noncurrent assets:	
Capital assets	7,798,846
Accumulated depreciation	<u>(3,642,321)</u>
Total noncurrent assets	<u>4,156,525</u>
<b>TOTAL ASSETS</b>	<u><b>4,982,927</b></u>
<b>LIABILITIES:</b>	
Current liabilities:	
Accounts payable	26,681
Accrued interest	13,265
Accrued expenses	117,946
Note payable - state	225,000
Notes payable	20,205
Vested sick pay	4,660
Early retirement incentive	18,334
Bonds payable	<u>213,468</u>
Total current liabilities	<u>639,559</u>
Noncurrent liabilities:	
Notes payable	20,206
Vested sick pay	12,348
Early retirement incentive	27,916
Bonds payable	<u>613,597</u>
Total noncurrent liabilities	<u>674,067</u>
<b>TOTAL LIABILITIES</b>	<u><b>1,313,626</b></u>
<b>NET ASSETS:</b>	
Invested in capital assets, net of related debt	3,289,049
Restricted for capital projects	11,498
Restricted for debt service	363,810
Unrestricted	<u>4,944</u>
<b>TOTAL NET ASSETS</b>	<u><b>\$ 3,669,301</b></u>

The accompanying notes to the financial statements are an integral part of this statement.





# NORTH DICKINSON COUNTY SCHOOL DISTRICT

## STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2008

	Program Revenue				Net (Expense) Revenue and Changes in Net Assets
	Expenses	Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
<b>FUNCTIONS/PROGRAMS</b>					
<b>PRIMARY GOVERNMENT:</b>					
Governmental Activities:					
Instruction	\$ 1,674,567	\$ -	\$ 249,282	\$ -	\$ (1,425,285)
Support	1,240,019	-	-	-	(1,240,019)
School service	293,196	105,745	-	-	(187,451)
Depreciation	215,380	-	-	-	(215,380)
Debt interest, fees and expenses	38,523	-	-	-	(38,523)
<b>TOTAL PRIMARY GOVERNMENT</b>	<b>3,461,685</b>	<b>105,745</b>	<b>249,282</b>	<b>-</b>	<b>(3,106,658)</b>

### General revenues:

Property taxes	\$ 1,585,976
State revenue sharing	1,654,760
Unrestricted investment earnings	29,157
Other	56,126
Total general revenues and transfers	3,326,019
Changes in net assets	219,361
Net assets, beginning of year	3,449,940
Net assets, end of year	\$ 3,669,301

The accompanying notes to the financial statements are an integral part of this statement.

# NORTH DICKINSON COUNTY SCHOOL DISTRICT

## BALANCE SHEET GOVERNMENTAL FUNDS

June 30, 2008

	General	Debt Service	Sinking Fund #255211	Nonmajor Governmental Funds	Total Governmental Funds
<b>ASSETS:</b>					
Cash and equivalents	\$ 83,852	\$ -	\$ 30,198	\$ 3,885	\$ 117,935
Investments	29,036	363,810	-	-	392,846
Inventory	-	-	-	4,085	4,085
Due from other funds	2,455	-	-	-	2,455
Due from other governments	311,536	-	-	-	311,536
<b>TOTAL ASSETS</b>	<b>\$ 426,879</b>	<b>\$ 363,810</b>	<b>\$ 30,198</b>	<b>\$ 7,970</b>	<b>\$ 828,857</b>
<b>LIABILITIES:</b>					
Accounts payable	\$ 7,981	\$ -	\$ 18,700	\$ -	\$ 26,681
Accrued expenses	117,946	-	-	-	117,946
Due to other funds	-	-	-	2,455	2,455
Notes payable	225,000	-	-	-	225,000
<b>TOTAL LIABILITIES</b>	<b>350,927</b>	<b>-</b>	<b>18,700</b>	<b>2,455</b>	<b>372,082</b>
<b>FUND BALANCE AND OTHER CREDITS:</b>					
Fund balances:					
Reserved	-	363,810	11,498	-	375,308
Unreserved					
Undesignated	75,952	-	-	5,515	81,467
<b>TOTAL FUND BALANCE AND OTHER CREDITS</b>	<b>75,952</b>	<b>363,810</b>	<b>11,498</b>	<b>5,515</b>	<b>456,775</b>
<b>TOTAL LIABILITIES, FUND BALANCE AND OTHER</b>	<b>\$ 426,879</b>	<b>\$ 363,810</b>	<b>\$ 30,198</b>	<b>\$ 7,970</b>	<b>\$ 828,857</b>

The accompanying notes to the financial statements are an integral part of this statement.





**NORTH DICKINSON COUNTY SCHOOL DISTRICT**

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS**

For the Year Ended June 30, 2008

Total fund balances for governmental funds \$ 456,775

Total net assets reported for governmental activities in the statement of net assets is different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. Those assets consist of:

Land and improvements	\$ 858,555	
Equipment	1,149,573	
Buildings and improvements	<u>5,790,718</u>	
Total capital assets	7,798,846	
Accumulated depreciation	<u>(3,642,321)</u>	

Net capital assets 4,156,525

Long-term liabilities applicable to the District's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities, both current and long-term, are reported in the statement of net assets.

Accrued interest on long-term debt	\$ (13,265)	
Bonds payable	(827,065)	
Compensated absences - vested	(17,008)	
Early retirement incentive	(46,250)	
Notes payable	<u>(40,411)</u>	(943,999)
Total net assets of governmental activities		\$ 3,669,301





# NORTH DICKINSON COUNTY SCHOOL DISTRICT

## STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE GOVERNMENTAL FUNDS

For the Year Ended June 30, 2008

	General	Debt Service	Sinking Fund #255211	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES:					
Local sources	\$ 1,252,091	\$184,653	\$227,311	\$ 105,369	\$ 1,769,424
State sources	1,648,961	-	-	5,798	1,654,759
Federal sources	127,607	-	-	79,327	206,934
TOTAL REVENUES	<u>3,028,659</u>	<u>184,653</u>	<u>227,311</u>	<u>190,494</u>	<u>3,631,117</u>
EXPENDITURES:					
Instruction	1,687,751	-	-	-	1,687,751
Supporting services	1,218,005	-	448,211	-	1,666,216
Debt service	-	223,815	-	-	223,815
School service	-	-	-	293,196	293,196
TOTAL EXPENDITURES	<u>2,905,756</u>	<u>223,815</u>	<u>448,211</u>	<u>293,196</u>	<u>3,870,978</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>122,903</u>	<u>(39,162)</u>	<u>(220,900)</u>	<u>(102,702)</u>	<u>(239,861)</u>
OTHER FINANCING SOURCES (USES):					
Other sources	7,581	-	-	-	7,581
Payments received from other governmental units	42,348	-	-	-	42,348
Transfers in	-	-	-	104,332	104,332
Other uses	(47,746)	-	-	-	(47,746)
Payments to other governmental units	(11,892)	-	-	-	(11,892)
Transfers out	(104,332)	-	-	-	(104,332)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(114,041)</u>	<u>-</u>	<u>-</u>	<u>104,332</u>	<u>(9,709)</u>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	<u>8,862</u>	<u>(39,162)</u>	<u>(220,900)</u>	<u>1,630</u>	<u>(249,570)</u>
FUND BALANCE, JULY 1	<u>67,090</u>	<u>402,972</u>	<u>232,398</u>	<u>3,885</u>	<u>706,345</u>
FUND BALANCE, JUNE 30	<u>\$ 75,952</u>	<u>\$363,810</u>	<u>\$ 11,498</u>	<u>\$ 5,515</u>	<u>\$ 456,775</u>

The accompanying notes to the financial statements are an integral part of this statement.

**NORTH DICKINSON COUNTY SCHOOL DISTRICT**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES**

For the Year Ended June 30, 2008

Net changes in fund balances - total governmental funds \$ (249,570)

The change in net assets reported for governmental activities in  
the statement of activities is different because:

Governmental funds report capital outlays as expenditures. However, in  
the statement of activities the cost of those assets is capitalized and the  
cost of those assets is allocated over their estimated useful lives and  
reported as depreciation expense. This is the amount by which capital  
outlay \$438,089 exceeded depreciation expense \$(215,380). 222,709

Bond and loan proceeds are reported as financing sources in governmental  
funds and thus contribute to the change in fund balance. In the statement of  
net assets, however, issuing debt increases long-term liabilities and does  
not affect the statement of activities. Similarly, repayment of principal is  
an expenditure in the governmental funds but reduces the liability in the  
statement of net assets.

Principal repayments:

Bonds	185,000	
Notes payable	<u>39,822</u>	224,822

Under the modified accrual basis of accounting used in governmental  
funds, expenditures are not recognized for transactions that are not  
normally paid with expendable available financial resources. In the  
statement of activities, however, which is presented on the accrual basis,  
expenses and liabilities are reported regardless of when financial resources  
are available. In addition, interest on long-term debt is not recognized  
under the modified accrual basis of accounting until due, rather than as it  
accrues. This adjustment combines the following net changes:

Early retirement obligation	\$ 22,084	
Compensated absences	(976)	
Accrued interest	<u>292</u>	<u>21,400</u>
Changes in net assets of governmental activities		\$ <u>219,361</u>

**NORTH DICKINSON COUNTY SCHOOL DISTRICT**

**STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS**

June 30, 2008

	<u>Agency Fund Student Activity</u>
ASSETS:	
Cash and equivalents	<u>\$ 28,614</u>
TOTAL ASSETS	<u>28,614</u>
LIABILITIES:	
Due to student groups	<u>-</u>
TOTAL LIABILITIES	<u>-</u>
NET ASSETS:	<u>\$ 28,614</u>

ANDERSON, TACKMAN  
& COMPANY, P.L.C.  
CERTIFIED PUBLIC ACCOUNTANTS



The accompanying notes to the financial statements are an integral part of this statement.

## NORTH DICKINSON COUNTY SCHOOL DISTRICT

### NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2008

#### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying basic financial statements of the North Dickinson County School District ("District") have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units, as prescribed by the Governmental Accounting Standards Board (GASB). GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting principles and policies utilized by the District are described below.

In June 1999, the GASB issued Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. Some of the significant changes in the statement include the following:

- An Administration's Discussion and Analysis section providing an analysis of the District's overall financial position and results of operations.

- Financial statements prepared using full accrual accounting for all the District's activities.

- A change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements (including notes to financial statements). The District has elected to implement the provisions of the Statement.

##### A. Reporting Entity

In evaluating how to define the District, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GASB Statement #14, *The Financial Reporting Entity* and as amended by GASB Statement #39.

The criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity's financial statements include budget adoption, taxing authority, funding, appointment of the respective governing board, and scope of public service.

Based on the foregoing criteria, it has been determined that there are no component units of the North Dickinson County School District.



## NORTH DICKINSON COUNTY SCHOOL DISTRICT

### **NOTES TO FINANCIAL STATEMENTS**

For the Year Ended June 30, 2008

(Continued)

#### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### **B. Basic Financial Statements – Government-Wide Statements**

The District's basic financial statements include both government-wide (reporting the District as a whole) and fund financial statements (reporting the District's major funds). The government-wide financial statements categorize primary activities as either governmental or business type. All of the District's activities are classified as governmental activities except for fiduciary activities.

In the government-wide Statement of Net Assets, both the governmental activities column (a) is presented on a consolidated basis, (b) and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The District first utilizes restricted resources to finance qualifying activities.

The government-wide Statement of Activities reports both the gross and net cost of each of the District's functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues, fines, permits and charges, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources and federal sources, interest income, etc.).

The District does not allocate indirect costs. In creating the government-wide financial statements the District has eliminated interfund transactions.

The government-wide focus is on the sustainability of the District as an entity and the change in the District's net assets resulting from the current year's activities.

##### **C. Basic Financial Statements – Fund Financial Statements**

The accounts of the District are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenue and expenditures. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped into generic fund types in two broad fund categories as follows:

## NORTH DICKINSON COUNTY SCHOOL DISTRICT

### **NOTES TO FINANCIAL STATEMENTS**

For the Year Ended June 30, 2008

(Continued)

#### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### **C. Basic Financial Statements - Fund Financial Statements (Continued)**

Governmental Funds - Governmental funds are used to account for the acquisition, use and balances of expendable financial resources and the related current liabilities, except for those accounted for in fiduciary funds. Governmental fund types use the flow of current financial resources measurement focus and the modified accrual basis of accounting.

General Fund - The General Fund is the primary operating fund of the District. It is used to account for all financial transactions of the District, except those required to be accounted for in other funds.

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than expendable trusts or capital projects) that are legally restricted to expenditures for specified purposes. The District uses the Special Revenue Fund to account for the North Dickinson County School District's activity.

Debt Service Funds - Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Capital Project Funds - Capital Project Funds are used to account for the acquisition or construction of major capital facilities (other than those financed by proprietary funds).

Fiduciary Funds - Fiduciary funds account for assets held by the government in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the government under the terms of a formal trust agreement.

Agency Fund - The agency fund is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. This fund is used to account for assets that the government holds for others in an agency capacity (primarily student activities).

Account Groups - Account groups are used to establish accounting control and accountability for the District's general fixed assets and long-term obligations. The following are the District's account groups:

General Fixed Assets - This group of accounts was established to account for all general fixed assets of the District.

General Long-Term Obligations - This group of accounts has been established to account for unmatured general long-term obligations and certain other liabilities of the District not expected to be liquidated through the use of available expendable financial resources.



## NORTH DICKINSON COUNTY SCHOOL DISTRICT

### **NOTES TO FINANCIAL STATEMENTS**

For the Year Ended June 30, 2008

(Continued)

#### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### **D. Measurement Focus and Basis of Accounting**

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made regardless of the measurement focus. The governmental-wide statement uses the economic resources measurement focus.

##### **Accrual**

Governmental activity in the government-wide financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

##### **Modified Accrual**

The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when they become both measurable and available (susceptible to accrual). "Measurable" means the amount of the transaction can be determined, and "available" means collectible within the current period or soon enough thereafter to pay liabilities of the current period. The District considers property taxes as available if they are collected within 60 days after the year end. A one year period is used for revenue recognition for all other governmental fund revenues. Those revenues prone to accrual are property taxes, federal aid, interest-revenue, and charges for services.

The District reports deferred revenue on its governmental fund balance sheet. Deferred revenues arise when a potential revenue does not meet both the "measurable" and "available" criteria for recognition by the District before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.





**NORTH DICKINSON COUNTY SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

For the Year Ended June 30, 2008

(Continued)

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. Measurement Focus and Basis of Accounting (Continued)**

**State Foundation Revenue** - For the fiscal year ended June 30, 2008, the State of Michigan adopted a foundation grant approach which provides for a specific annual amount of revenue per student based on a state wide formula. In previous years, the state utilized a district power equalizing approach. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2008, the foundation allowance was based on the average of pupil membership counts taken in February and September of 2007.

Expenditures and related liabilities are recognized when obligations are incurred as a result of the receipt of goods and services. Modifications include:

Principal and interest on general long-term debt are recorded as fund liabilities when due, or when amounts have been accumulated in the debt service fund for payments of principal and interest to be made early in the following year.

**E. Cash and Equivalents**

The District's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from date of acquisition. Cash and equivalent balances for individual funds are pooled unless maintained in segregated accounts.

**F. Interfund Balances and Transfers**

The current portion of lending/borrowing arrangements between funds are identified as "due to/from other funds". The non-current portion of outstanding balances between funds are reported as "advances to/from other funds". Advances between funds are offset by a fund balance reserve account to indicate that they are not available for appropriation and are not expendable available financial resources.

Transfers represent a flow of assets without equivalent flows of assets in return or a requirement for repayment.

**G. Inventories and Prepaid Items**

Inventories are valued at the lower of cost (first-in, first-out) or market. Inventories in the Special Revenue Fund consisting of expendable supplies held for consumption, are recorded as expenditures when consumed rather than when purchased. Inventories for commodities are recorded as revenue when utilized. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.



## NORTH DICKINSON COUNTY SCHOOL DISTRICT

### NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2008

(Continued)

#### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

##### H. Capital Assets

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Buildings and additions	20-50 years
Buses and other vehicles	5-10 years
Furniture and other equipment	5-20 years

The District has adopted a capitalization policy of \$1,000.

##### I. Long-Term Debt

Long-term debt is recognized as a liability of a governmental fund when due or when resources have been accumulated in the debt service fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund. The remaining portion of such obligations is reported in the general long-term debt account group.

##### J. Compensated Absences

Amounts representing accumulated vacation and personal leave expected to be liquidated with expendable available financial resources are reported as an expenditure and a fund liability of the government fund that will pay it.

##### K. Property Taxes

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are levied as of December 1 and are due upon receipt of the billing by the taxpayer and become a lien on the first day of the levy year. The actual due dates are February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity. School District property tax revenues are recognized as revenue when levied to the extent they result in current receivables (collected within sixty days after year end). Amounts received subsequent to August 31 are recognized as revenue when collected.



## NORTH DICKINSON COUNTY SCHOOL DISTRICT

### **NOTES TO FINANCIAL STATEMENTS**

For the Year Ended June 30, 2008

(Continued)

#### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### **K. Property Taxes (Continued)**

The District, along with certain other governmental units, is permitted by the Constitution of the State of Michigan of 1963 to levy combined taxes up to \$50 per \$1,000 of assessed valuation for general governmental services other than the payment of Debt Service Fund expenses if approved by a majority of the electors. The District must include certain tax levies of other governmental units located within the District, primarily the county, when determining the maximum millage of \$50 per \$1,000 of assessed valuation. For the year ended June 30, 2008, the District levied the following amounts per \$1,000 of assessed valuation:

<u>Fund Mills</u>	
General Fund - Non-Homestead	18.0
Debt Retirement	1.5
Sinking Fund	2.0

##### **L. Unemployment Insurance**

The District reimburses the Michigan Employment Security Commission (MESC) for the actual amount of unemployment benefits disbursed by the MESC on behalf of the District. Billings received for amounts paid by the MESC through June 30 are accrued.

##### **M. Fund Balance**

The unreserved fund balances for governmental funds represent the amount available for budgeting future operations. The reserved fund balances for governmental funds represent the amount that has been legally identified for specific purposes or indicates that a component of net current assets does not constitute "available spendable resources". Designated fund balances represents amounts set aside by the governing body for specific purposes such as capital improvements.

##### **N. Budgets**

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the general and special revenue funds. All annual appropriations lapse at fiscal year end. The District follows these procedures in establishing the budgetary date reflected in the financial statements:

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1<sup>st</sup>. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budget is at the functional level as set forth in the combined statement of revenues, expenditures and changes in fund balances - budget and actual - all governmental fund types.



## NORTH DICKINSON COUNTY SCHOOL DISTRICT

### **NOTES TO FINANCIAL STATEMENTS**

For the Year Ended June 30, 2008

(Continued)

#### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### **N. Budgets (Continued)**

2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1<sup>st</sup>, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated, or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred unless authorized in the budget, or in excess of the amount appropriated. Any expenditures in violation of the budgeting act are disclosed as unfavorable variances on the combined statement of revenues, expenditures and changes in fund balances - budget and actual (GAAP basis) - all governmental fund types.
4. The Superintendent is authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the School Board.
5. Formal budgetary integration is employed as a management control device during the year for the general fund.
6. The budget as presented, has been amended. Supplemental appropriations were made during the year with the last one approved prior to June 30th.

The budget for the year ended June 30, 2008 was adopted on June 11, 2007 and formally amended on January 14, 2008, June 9, 2008, and July 14, 2008.

A comparison of actual results of operations to the budgeted amounts (at the level of control adopted by the Board of Education) for the General Fund is presented as Required Supplemental Information.

#### **NOTE 2 - CASH AND INVESTMENTS**

##### **Cash and Equivalents**

The District's cash and equivalents, as reported in the Statement of Net Assets, consisted of the following:

Money market accounts	\$ 30,198
Checking accounts	<u>87,737</u>
<b>TOTAL</b>	<b>\$117,935</b>

## NORTH DICKINSON COUNTY SCHOOL DISTRICT

### **NOTES TO FINANCIAL STATEMENTS**

For the Year Ended June 30, 2008

(Continued)

#### **NOTE 2 - CASH AND INVESTMENTS (Continued)**

##### Cash and Equivalents (Continued)

*Custodial Credit Risk.* Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned. State law does not require and the District does not have a policy for deposit custodial credit risk. As of June 30, 2008, the District had cash and equivalents which were uninsured and uncollateralized in the amount of \$52,585.

##### Investments

The District's investments, as reported in the Statement of Net Assets, consisted of the following:

Michigan Liquid Asset Fund (MILAF)	<u>\$392,846</u>
------------------------------------	------------------

Michigan statutes authorize the District to invest in bonds, other direct obligations and repurchase agreements of the United States, certificates of deposits, savings accounts, deposit accounts or receipts of a bank which is a member of the FDIC, commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and matures within 270 days of date of purchase, bankers' acceptances of United States banks, obligations of the State of Michigan and its political subdivisions, external investment pools, and certain mutual funds.

Investments are recorded at fair market value, which is based on quoted market prices.

*Interest Rate Risk.* Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the District's investments. The District's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The District's investments are with the Michigan Liquid Asset Fund (MILAF) which consists of different funds including mutual funds with a high degree of liquidity, thus the District's investments are not subject to interest rate risk.



**NORTH DICKINSON COUNTY SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**  
For the Year Ended June 30, 2008  
(Continued)

**NOTE 3 - INTERFUND BALANCES AND TRANSFERS**

Interfund receivables and payables for the year ended June 30, 2008 are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
General	\$ 2,455	Nonmajor Governmental	\$ 2,455

Interfund transfers for the year ended June 30, 2008 are as follows:

<u>Fund</u>	<u>Transfers In</u>	<u>Fund</u>	<u>Transfers Out</u>
Nonmajor Governmental	\$104,332	General	\$104,332

**NOTE 4 - CAPITAL ASSETS**

A summary of changes in capital assets for the year ended June 30, 2008 follows:

	<u>Balance July 1, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2008</u>
Land	\$ 301,700	\$ -	\$ -	\$ 301,700
Land improvements	556,855	-	-	556,855
Buildings and improvements	5,437,000	353,718	-	5,790,718
Equipment	1,065,202	84,371	-	1,149,573
<b>TOTALS</b>	<b>7,360,757</b>	<b>\$ 438,089</b>	<b>\$ -</b>	<b>7,798,846</b>
Accumulated Depreciation	(3,426,941)	\$ (215,380)	\$ -	(3,642,321)
<b>Net Fixed Assets</b>	<b>\$ 3,933,816</b>			<b>\$ 4,156,525</b>

Depreciation for the year ended June 30, 2008, amounted to \$215,380. The District determined that it was impractical to allocate depreciation to various governmental activities as the assets serve multiple functions.

# **NORTH DICKINSON COUNTY SCHOOL DISTRICT**

## **NOTES TO FINANCIAL STATEMENTS** For the Year Ended June 30, 2008 (Continued)

### **NOTE 5 – LONG-TERM OBLIGATIONS**

During the year ended June 30, 2008, the following changes occurred in long-term obligations:

	Balance July 1, 2007	Additions	Deletions	Balance June 30, 2008	Amounts Due Within One Year
General Obligation:					
Bonds	\$ 1,012,065	\$ -	\$(185,000)	\$ 827,065	\$213,468
Notes Payable	80,233	-	(39,822)	40,411	20,205
Employee Benefits:					
Teachers Early Retirement	68,334	-	(22,084)	46,250	18,334
Sick Pay	16,032	976	-	17,008	2,784
<b>TOTALS</b>	<b>\$ 1,176,664</b>	<b>\$ 976</b>	<b>\$(246,906)</b>	<b>\$ 930,734</b>	<b>\$254,791</b>

### **NOTE 6 - BONDS AND NOTES PAYABLE**

Long-term obligations at June 30, 2008 is comprised of the following amounts:

1. 1999 School Building Bonds due in annual installments of \$92,118 to \$225,015 through May 1, 2011 with interest at 4.75% to 5.0% \$595,000
2. 1998 Durant Bonds due in annual installments of \$3,813 to \$17,996 through May 15, 2013, with interest at 4.6% 32,065

The annual State of Michigan appropriation is the only revenue source for making the annual payments on the Durant Bonds. The District is under no obligation to make the annual payment in any year the legislature fails to appropriate the proper amount of funds.

3. 2008 School Building and Site Bonds due June 12, 2022 200,000
4. Note payable for bus \$20,205 annually with interest at 4.69% 40,411
5. Vested accumulated sick pay 17,008
6. Early retirement obligation 46,250
- TOTAL LONG-TERM OBLIGATIONS \$930,734**

# NORTH DICKINSON COUNTY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2008

### NOTE 6 - BONDS AND NOTES PAYABLE (Continued)

The annual requirements to amortize long-term obligations outstanding as of June 30, 2008 are as follows:

Year Ended June 30	Bond Issues		Notes Payable		Sick Leave	ERI	Total
	Principal	Interest	Principal	Interest			
2009	\$ 213,468	\$ 36,904	\$ 20,205	\$ 1,421	\$ 4,660	\$ 18,333	\$ 294,991
2010	203,166	20,647	20,206	474	-	17,500	261,993
2011	203,316	10,497	-	-	-	9,167	222,980
2012	3,475	339	-	-	-	1,250	5,064
2013-2017	3,640	173	-	-	12,348	-	16,587
2018-2022	200,000	-	-	-	-	-	200,000
<b>TOTALS</b>	<u>\$27,065</u>	<u>68,560</u>	<u>40,411</u>	<u>1,895</u>	<u>\$17,008</u>	<u>\$46,250</u>	<u>\$ 1,001,615</u>

Interest expense for the year ended June 30, 2008 was \$41,581.

### NOTE 7 - FUND BALANCES

Portions of fund balances are reserved or designated and not available for general purposes other than fund usage as follows:

	Reserved Designated
Capital Project	\$ 11,498
Debt Service	363,810
<b>TOTAL</b>	<b>\$375,308</b>

### NOTE 8 - EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN

**Plan Description** – The School District participates in the Michigan Public School Employees' Retirement System (MPERS), a statewide, cost-sharing, multiple-employer, defined benefit public employee retirement system governed by the State of Michigan that covers substantially all employees of the District. The system provides retirement, survivor and disability benefits to plan members and their beneficiaries. The Michigan Public School Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the system at 7150 Harris Drive, P.O. Box 30673, Lansing, MI 48909-8103.

**Funding Policy** – Employer contributions to the system result from the implementing effects of the School Finance Reform Act. Under these procedures, each school district is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis.





## **NORTH DICKINSON COUNTY SCHOOL DISTRICT**

### **NOTES TO FINANCIAL STATEMENTS**

For the Year Ended June 30, 2008

(Continued)

#### **NOTE 8 - EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN (Continued)**

The pension benefit rate totals 17.74 percent for the period July 1, 2007 through September 30, 2007 and 16.72 percent for October 1, 2007 through June 30, 2008 of the covered payroll to the plan. Basic plan members make no contributions, but Member Investment Plan members contribute at rates ranging from 3 percent to 4.3 percent of gross wages. The District's contributions to the MPSERS plan for the years ended June 30, 2008, 2007, and 2006 were \$239,247, \$259,913, and \$268,040.

**Post Employment Benefits** Under the MPSERS Act, all retirees participating in the MPSERS Pension Plan have the option of continuing health, dental and vision coverage. Retirees having these coverages contribute an amount equivalent to the monthly cost of Part B Medicare and 10 percent of the monthly premium amount for the health, dental and vision coverages. Required contributions for post employment health care benefits are included as part of the District's total contribution to the MPSERS plan discussed above.

#### **NOTE 9 - RISK MANAGEMENT**

The District is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District participated in two distinct pools of educational institutions within the State of Michigan for self-insuring property and casualty and workers' disability compensation. The pools are considered public entity risk pools. The District pays annual premiums to each pool for the respective insurance coverage. In the event a pool's total claims and expenses for a policy year exceed the total normal annual premiums for said year, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. Each of the pools maintain reinsurance for claims in excess of \$500,000 for each occurrence with the overall maximum coverage being unlimited. The District has not been informed of any special assessments being required. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

The District continues to carry commercial insurance for other risks of loss, including employee health and accident insurance.

#### **NOTE 10 - USE OF ESTIMATES**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.



## **NORTH DICKINSON COUNTY SCHOOL DISTRICT**

### **NOTES TO FINANCIAL STATEMENTS**

For the Year Ended June 30, 2008

(Continued)

#### **NOTE 11 – SIGNIFICANT ESTIMATES**

Included in footnote 8 is a summary of the employee retirement plan provisions and actuarial assumptions. The actuarial assumptions are very critical to the computation of actuarial determined liabilities of the plan. If the assumptions differ from actual results annual contributions to the defined benefit plan can substantially change.

#### **NOTE 12 – SINKING FUND COMPLIANCE**

The Capital Projects Fund includes activities funded with sinking fund tax dollars issued after May 1, 1994. For this capital project, the District has complied with the applicable provisions of §1351a of the Revised School Code.

#### **NOTE 13 – NOTES PAYABLE**

State aid anticipation note due to the First National Bank of Crystal Falls in the amount of \$250,000. The note is secured by State Aid payments and is subject to an interest rate of 2.98% and matures May 14, 2009.

During the year ended June 30, 2008, the following changes occurred in notes payable:

	<u>Balance</u> <u>July 1, 2007</u>	<u>Additions</u>	<u>Repayments</u>	<u>Balance</u> <u>June 30, 2008</u>
State Aid				
Anticipation Note	\$250,000	\$225,000	\$(250,000)	\$225,000

#### **NOTE 14 – COMPENSATED ABSENCES**

At June 30, 2008 accumulated non-vested sick time amounted to \$327,101. Non-vested, unused sick time does not vest and so is not included in the general long-term debt account group.



**REQUIRED SUPPLEMENTAL INFORMATION**

# **NORTH DICKINSON COUNTY SCHOOL DISTRICT**

## **SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - GENERAL FUND**

For the Year Ended June 30, 2008

	<u>Budgeted Amounts</u>		<u>Actual</u> <u>(Budgetary</u> <u>Basis)</u> <u>(Note 1)</u>
	<u>Original</u>	<u>Final</u>	
<b>REVENUES:</b>			
Local sources	\$ 1,290,290	\$ 1,253,077	\$ 1,252,091
State sources	1,566,125	1,635,728	1,648,961
Federal sources	122,437	127,607	127,607
<b>TOTAL REVENUES</b>	<b>2,978,852</b>	<b>3,016,412</b>	<b>3,028,659</b>
<b>EXPENDITURES:</b>			
Instruction	1,665,425	1,691,171	1,687,751
Supporting services	1,212,528	1,223,844	1,218,005
<b>TOTAL EXPENDITURES</b>	<b>2,877,953</b>	<b>2,915,015</b>	<b>2,905,756</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>100,899</b>	<b>101,397</b>	<b>122,903</b>
<b>OTHER FINANCING SOURCES (USES):</b>			
Other sources	6,904	7,581	7,581
Payments received from other governmental units	32,600	42,348	42,348
Other uses	(39,827)	(39,823)	(47,746)
Payments to other governmental units	(6,991)	(7,924)	(11,892)
Transfers out	(100,909)	(113,330)	(104,332)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(108,223)</b>	<b>(111,148)</b>	<b>(114,041)</b>
<b>EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES</b>	<b>(7,324)</b>	<b>(9,751)</b>	<b>8,862</b>
<b>FUND BALANCE, JULY 1</b>	<b>67,090</b>	<b>67,090</b>	<b>67,090</b>
<b>FUND BALANCE, JUNE 30</b>	<b>\$ 59,766</b>	<b>\$ 57,339</b>	<b>\$ 75,952</b>

The accompanying notes to the financial statements are an integral part of this statement.



OTHER SUPPLEMENTAL INFORMATION

**NORTH DICKINSON COUNTY SCHOOL DISTRICT**

**COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS**

June 30, 2008

	Food Service	Athletics	Total Nonmajor Governmental Funds
ASSETS:			
Cash and equivalents	\$ -	\$ 3,885	\$ 3,885
Inventory	4,085	-	4,085
TOTAL ASSETS	<u>\$ 4,085</u>	<u>\$ 3,885</u>	<u>\$ 7,970</u>
LIABILITIES:			
Due to other funds	\$ 2,455	\$ -	\$ 2,455
TOTAL LIABILITIES	<u>2,455</u>	<u>-</u>	<u>2,455</u>
FUND BALANCE AND OTHER CREDITS:			
Fund balances:			
Unreserved-Undesignated	<u>1,630</u>	<u>3,885</u>	<u>5,515</u>
TOTAL FUND BALANCE AND OTHER CREDITS	<u>1,630</u>	<u>3,885</u>	<u>5,515</u>
TOTAL LIABILITIES, FUND BALANCE AND OTHER	<u>\$ 4,085</u>	<u>\$ 3,885</u>	<u>\$ 7,970</u>

The accompanying notes to the financial statements are an integral part of this statement.



**NORTH DICKINSON COUNTY SCHOOL DISTRICT**

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE  
NONMAJOR GOVERNMENTAL FUNDS**

For the Year Ended June 30, 2008

	Food Service	Athletics	Total Nonmajor Governmental Funds
REVENUES:			
Local sources	\$ 74,413	\$ 30,956	\$ 105,369
State sources	5,798	-	5,798
Federal sources	79,327	-	79,327
 TOTAL REVENUES	 159,538	 30,956	 190,494
EXPENDITURES:			
School service	175,532	117,664	293,196
 TOTAL EXPENDITURES	 175,532	 117,664	 293,196
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	 (15,994)	 (86,708)	 (102,702)
OTHER FINANCING SOURCES (USES):			
Transfers in	17,624	86,708	104,332
Transfers out	-	-	-
 TOTAL OTHER FINANCING SOURCES (USES)	 17,624	 86,708	 104,332
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	 1,630	 -	 1,630
 FUND BALANCE, JULY 1	 -	 3,885	 3,885
 FUND BALANCE, JUNE 30	 \$ 1,630	 \$ 3,885	 \$ 5,515

The accompanying notes to the financial statements are an integral part of this statement.



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH *GOVERNMENT AUDITING STANDARDS***

Board of Education  
North Dickinson County School District  
Felch, Michigan

We have audited the financial statements of North Dickinson County School District as of and for the year ended June 30, 2008, and have issued our report thereon dated October 22, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered North Dickinson County School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of North Dickinson County School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of North Dickinson County School District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as item 2008-1, 2008-2, 2008-3, 2008-4 and 2008-5 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weakness. We did not identify any deficiencies in internal control over financial reporting that we consider to be a material weakness, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the North Dickinson County School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH GOVERNMENT AUDITING STANDARDS  
(Continued)**

This report is intended solely for the information of the audit committee, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

*Anderson Tackman & Co. PLC*

ANDERSON, TACKMAN & COMPANY, PLC  
Certified Public Accountants  
Iron Mountain, Michigan

October 22, 2008

**NORTH DICKINSON COUNTY SCHOOL DISTRICT**

**SCHEDULE OF FINDINGS AND RESPONSES**

For the Year Ended June 30, 2008

**FINDINGS – FINANCIAL STATEMENT AUDIT**

**SIGNIFICANT DEFICIENCIES**

**Finding 2008-1**

**Reportable Condition:**

During the audit an error in accounts payable and capital assets were detected and adjusted due to additional payables and equipment donations not being properly recorded.

**Criteria:**

The Michigan Department of Treasury and Education requires the District to have effective internal controls and accountability must be maintained for all funds. To ensure effectiveness of internal control, adequate procedures should exist among those who perform accounting procedures and internal control activities over the financial records of the District. Internal control procedures should be such that there is a reduced risk of error and error and misstatements would be prevented or detected timely.

**Condition:**

The District did not have adequate procedures over the recording of accounts payable and donated equipment at June 30, 2008.

**Questioned Costs:**

None

**Effect:**

With adequate and effective internal control policies and procedures, there is a reduced risk of errors that could materially affect the financial statements.

**Cause:**

Lack of policies and procedures over accounts payable and donated equipment.

**Recommendation:**

The District should adopt policies and procedures that would require management to review all donated equipment as well as subsequent disbursements in detail for proper accounting and accounting for the items in the correct accounting period.

**Management's Response:**

The District will review its policies and procedures relative to accounts payable and modify the policies and procedures as needed. The District will see to it that all bills received in subsequent months will be reviewed in detail by the business manager and superintendent for the proper recording of each invoice.



**NORTH DICKINSON COUNTY SCHOOL DISTRICT**

**SCHEDULE OF FINDINGS AND RESPONSES**

For the Year Ended June 30, 2008

**FINDINGS – FINANCIAL STATEMENT AUDIT – continued**

**SIGNIFICANT DEFICIENCIES**

Finding 2008-2

**Reportable Condition:**

During the audit it was noted that the District has several interfund transfers as deposits in transit recorded at June 30, 2008, yet did not physically make the transfers for 60-90 days after the year-end.

**Criteria:**

The Michigan Department of Treasury and Education requires the District to have effective internal controls and accountability must be maintained for all funds. Accountability includes the timely reimbursement of interfund balances. To ensure effectiveness of internal control, adequate procedures should exist among those who perform accounting procedures and internal control activities over the financial records of the District. Internal control procedures should be such that there is a reduced risk of error and error and misstatements would be prevented or detected timely.

**Condition:**

The District did not have adequate procedures over the accounting of interfund transfers at June 30, 2008.

**Questioned Costs:**

None

**Effect:**

With adequate and effective internal control policies and procedures, there is a reduced risk of errors that could materially affect the financial statements.

**Cause:**

Lack of policies and procedures over transfers of interfund balances and review of bank reconciliations.

**Recommendation:**

The District should adopt policies and procedures that would require management to review bank reconciliations and monitor interfund transfers for timeliness.

**Management's Response:**

The District will implement procedures that will require interfund balances to be transferred within 30 days after each month. The procedures will also require the superintendent to routinely monitor the interfund transfers as deemed necessary.



**NORTH DICKINSON COUNTY SCHOOL DISTRICT**

**SCHEDULE OF FINDINGS AND RESPONSES**

For the Year Ended June 30, 2008

**FINDINGS – FINANCIAL STATEMENT AUDIT - continued**

**SIGNIFICANT DEFICIENCIES**

**Finding 2008-3**

**Reportable Condition:**

The District does not have any formal review procedures of journal entries for financial reporting. There is a lack of segregation of duties relative to preparation and posting of journal entries.

**Criteria:**

The Michigan Department of Treasury and Education requires the District to have effective internal controls and accountability must be maintained for all funds. To ensure effectiveness of internal control, adequate procedures should exist among those who perform accounting procedures and internal control activities over the financial records of the District. Internal control procedures should be such that there is a reduced risk of error and error and misstatements would be prevented or detected timely.

**Condition:**

The District did not have any review procedures for the posting of journal entries.

**Questioned Costs:**

None

**Effect:**

With adequate and effective internal control policies and procedures, the risk of errors or misstatements would be prevented or timely detected.

**Cause:**

Lack of segregation of duties and/or compensating controls over journal entries.

**Recommendation:**

The District should adopt policies and procedures that would require all non-standard journal entries to be reviewed and approved by someone independent of the business manager.

**Management's Response:**

The District will implement a policy that would require all journal entries in excess of an established threshold, to be determined by the superintendent, to be reviewed and authorized.



**NORTH DICKINSON COUNTY SCHOOL DISTRICT**

**SCHEDULE OF FINDINGS AND RESPONSES**

For the Year Ended June 30, 2008

**FINDINGS – FINANCIAL STATEMENT AUDIT - continued**

**SIGNIFICANT DEFICIENCIES**

**Finding 2008-4**

**Reportable Condition:**

The District did not have any formal documentation of implemented internal control policies and procedures.

**Criteria:**

The Michigan Department of Treasury and Education requires the District to have effective internal controls and accountability must be maintained for all funds. To ensure effectiveness of internal control, adequate procedures should exist among those who perform accounting procedures and internal control activities over the financial records of the District. Internal control procedures should be such that there is a reduced risk of error and error and misstatements would be prevented or detected timely.

**Condition:**

The District did not have its internal control policies and procedures documented.

**Questioned Costs:**

None

**Effect:**

With adequate design and documentation of internal control policy and procedures, there is a reduced risk of error or other intentional activities that could have a material affect on the financial statements.

**Cause:**

No documentation of the District's internal control policies and procedures.

**Recommendation:**

The District should review and document all of its internal control policies and procedures along with any compensating controls due to the size of the District.

**Management's Response:**

The District agrees and will formally document its internal control policies and procedures as recommended.



**NORTH DICKINSON COUNTY SCHOOL DISTRICT**

**SCHEDULE OF FINDINGS AND RESPONSES**

For the Year Ended June 30, 2008

**FINDINGS – FINANCIAL STATEMENT AUDIT - continued**

**SIGNIFICANT DEFICIENCIES**

**Finding 2008-5**

**Reportable Condition:**

It was noted during the audit that due to the size of the District, the District did not have adequate segregation of duties.

**Criteria:**

The Michigan Department of Treasury and Education requires the District to have effective internal controls and accountability must be maintained for all funds. To ensure effectiveness of internal control, adequate procedures should exist among those who perform accounting procedures and internal control activities over the financial records of the District. Internal control procedures should be such that there is a reduced risk of error and error and misstatements would be prevented or detected timely.

**Condition:**

Although the District did not have proper segregation of duties, we noted that mitigating or compensating controls were not designed to reduce the risk of errors or irregularities.

**Questioned Costs:**

None

**Effect:**

The existence of adequate segregation of duties would reduce the risk of errors and irregularities that could affect the financial statements or custody of assets.

**Cause:**

The size of the District was the reason for the lack of segregation of duties.

**Recommendation:**

The District's management along with its Board should design a system of internal controls that would contain mitigating controls that would attempt to address the lack of segregation of duties.

**Management's Response:**

The District feels that the actions that will be taken by the District relative to findings 2008-1 through 2008-4 will address most issues. As a result of the actions the District will take relative to finding 2008-4, procedures will be reviewed and modified to create segregation of duties in areas the District feels is of most importance.

